



The Health Insurance Illusion

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Health insurance gives Americans the illusion that they are spending someone else's money when they receive medical treatment, explains Jeffrey Singer, general surgeon and adjunct scholar at the Cato Institute.

According to a new report from Harvard and Dartmouth researchers, health care costs will grow faster than the U.S. economy for at least the next twenty years. The study's projection has major implications, as Americans already spend 20 percent of their pre-tax income on health care.

Will Obamacare halt this trend? Not at all, explains Singer, because health insurance is one of the largest contributing factors of high-cost medical care. Because health insurance places third-party payers -- whether insurance companies or the government -- into the mix, affordability and frugality take a back seat:

- Insurance providers are not concerned about making medical care affordable, because when they cover medical costs, they pay for it with their members' premiums. So when insurers contract to set prices with providers and facilities, they have little incentive for hard bargaining. As long as they reach a price that is "good enough," they can pass that price along to their consumers in the form of premiums.
- When insured patients seek medical care, they spend money inefficiently, because having a third party payer creates the illusion that someone else is paying for the costs of that medical treatment.

This cycle continues, artificially driving up the cost of medical care.

So if third party payers are the problem, is eliminating the third party payer in exchange for a single payer system the answer? No, explains Singer. In their attempt to keep costs down, single-payer systems create wait times, rationing, limited choices and reduced access to care.

A health care market without third party payers works, as dentistry, cosmetic surgery and Lasik eye surgery have demonstrated. Some providers today are unwilling to accept third party insurance at all, Singer notes, saving their patients money.

Source: Jeffrey A. Singer, "[The Health Insurance Trap](#)," Cato Institute, May 9, 2014.